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C O N F I D E N T I A L VILNIUS 000637

SIPDIS

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TAGS: [ENRG](#) [PREL](#) [LH](#)
SUBJECT: GOL NOT CONCERNED BY EC INQUIRY INTO LEO FORMATION
REF: VILNIUS 537

Classified By: CDA Damian Leader for reasons 1.4 (b) and (d).

¶1. (C) Following an inadequate first response from the Ministry of the Economy, the EC recently made a second request to the GOL to explain how the non-transparent formation of the national power holding company, LEO LT, did not violate EU directives on public procurement, according to Deividas Kriauciunas, the head of the European Law Department in Lithuania's Ministry of Justice.

¶2. (C) Kriauciunas told us the EC is interested in LEO's formation because NDX Energija, the private firm that was incorporated into state-owned LEO, was included without the public tender required by EC regulations when public procurement is involved. He noted, however, that LEO is an energy holding company with no procurement function. This position was echoed by LEO board member Saulius Specius and by Arturas Dainius, an Undersecretary at the Ministry of the Economy, who asserted to us that it was not necessary for the GOL to announce a tender for the formation of LEO, as it involved no government expenditure.

¶3. (C) Neither Kriauciunas, Dainius nor Specius expressed concern regarding the possibility that the EC might find that LEO must be restructured. Kestutis Sadauskas, Head of the EC office in Vilnius, confirmed to us July 16 that the EC is looking carefully at LEO's formation. So far, the argument that LEO has no procurement function is keeping the GOL out of trouble. The GOL is "on thin ice, but it's not broken yet" he told us.

¶4. (C) Specius said that Lithuania may face a challenge under EC regulations, when it comes time to create a project implementation (construction) company for the new INPP. He said it may be hard for the Estonian, Latvian, Lithuanian and Polish partners to justify their firms holding exclusive domain over the construction of a new INPP, as the project would involve public procurement. Dainius opined that this would not be a problem, however, because national security concerns would trump competition law; so long as the Baltics remain an energy island separate from the EU, their dependence upon Russia for energy resources threatens their security.

LEADER